

8492

TABLED 2013/2014 MEDIUM TERM REVENUE EXPENDITURE FRAMEWORK (MTREF)

This report is submitted directly to both the Executive Committee and Council with the concurrence of the Mayor, Councillor E F Mbatha and the Speaker, Councillor, M S Mnqayi.

PURPOSE

To submit to Council for approval, the Tabled 2013/2014 Budget and Medium Term Revenue and Expenditure Framework (MTREF).

IDP STRATEGY AND OBJECTIVES

DEVELOPMENT STRATEGY 5: SOUND FINANCIAL MANAGEMENT

Aim

- To ensure a healthy municipal revenue base that is aligned with the IDP, in order to ensure efficient, effective and sustainable service delivery and meeting the needs of the City's inhabitants

Goals

- Ensure that Financial Planning, Budgeting and Expenditure aligns with the IDP
- Increase the Municipal Revenue Base
- Maintain high levels of Debt Control
- Implement Revenue Enhancement measures

BACKGROUND

The Municipal Finance Management Act (MFMA), 2003 (No 56 of 2003) issues clear guidelines on the contents of the Budget Framework Plan. The Budget Framework Plan for the City of uMhlathuze has been adapted to incorporate these guidelines.

Section 17 of the Act highlights the following issues relating to the contents of the annual budget.

- "1) The annual budget must be a schedule in the **prescribed format** which should include the following: -
- a) *realistically anticipated revenue for the budget year from each revenue source;*
 - b) *appropriating expenditure for the budget year under the different votes of the municipality;*
 - c) *setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;*
 - d) *setting out -*
 - (i) *both estimated revenue and expenditure by vote for the current year; and*
 - (ii) *actual revenue and expenditure by vote for the financial year preceding the current year; and*
 - e) *A statement containing any other information required by Section 215(3) of the Constitution or as may be prescribed.*

- 2) *The annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed;*
- 3) *When an annual budget is tabled in terms of Section 16(2), it must be accompanied by the following documents:*
 - a) *Draft resolutions -*
 - (i) *Approving the budget of the municipality;*
 - (ii) *Imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and*
 - (iii) *Approving any other matter that may be prescribed;*
 - b) *measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;*
 - c) *a projection of cash flow for the budget year by revenue source, broken down per month;*
 - d) *any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of Section 34 of the Municipal Systems Act;*
 - e) *any proposed amendments to the budget-related policies of the municipality;*
 - f) *particulars of the municipality's investments;*
 - g) *any prescribed budget information on municipal entities under the sole or shared control of the municipality;*
 - h) *particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;*
 - i) *particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;*
 - j) *particulars of any proposed allocations or grants by the municipality to -*
 - (i) *other municipalities;*
 - (ii) *any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;*
 - (iii) *any other organs of state; and*
 - (iv) *any organisations or bodies referred to in section 67(1);*
 - k) *the proposed cost to the municipality for the budget year of the salary, allowances and benefits of -*
 - (i) *Each political office-bearer of the municipality;*
 - (ii) *councillors of the municipality; and*

- (iii) *the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;*
- l) *the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of -*
 - (i) *each member of the entity's board of directors; and*
 - (ii) *the chief executive officer and each senior manager of the entity; and*
- m) *any other supporting documentation as may be prescribed."*

As mentioned above, the MFMA Section 17(1) refers to a prescribed format according to which the annual budget is required to be prepared. National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009. These regulations set out the manner in which Municipalities are required to prepare the 2013/2014 Budget.

The objectives of the budget formats reforms in terms of these regulations are:

- ❖ To ensure that the municipal budget and financial reporting formats support the other financial management reforms introduced by the Municipal Finance Management Act (MFMA).
- ❖ To formalise the norms and standards governing municipal budget and financial reporting formats, so as to improve the credibility, sustainability, transparency, accuracy and reliability of budgets and in-year reports of municipalities.
- ❖ To improve Council's ability to deliver basic services to all by addressing issues of financial sustainability.
- ❖ To facilitate informed policy choices by Council and medium term planning of service delivery by aligning targets to achieve backlog elimination.

Specifically for the 2013/14 Budget, Circulars No. 66 (**DMS 843616**) **Annexure A1** issued in December 2012) and 67 (**DMS 859962** issued on 12 March 2013) **Annexure A2** are attached part of this report. **These circulars need to be read thoroughly by both the Council and the Administration.** The Chief Financial Officer has attempted to address as many of the guidelines as possible in this budget preparation.

Furthermore, the compilation of this Budget is based on the IDP priority weighting and the National and Provincial priorities.

DISCUSSION

This report and the supporting schedules will be forwarded to National and Provincial Treasury as required in terms of Section 22(b)(i) of the MFMA in both printed and electronic formats.

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PART 1 - ANNUAL BUDGET

1. MAYOR'S REPORT

The Mayor's Executive Summary will be presented at the Council meeting.

2. BUDGET RELATED RESOLUTIONS

Refer to the recommendations of this report.

3. EXECUTIVE SUMMARY

It must be noted that prior to the adoption of the budget, National Treasury will review and make comments on the tabled budget. This assists the Municipality in ensuring quality when preparing the budget in terms of the MFMA. The National Treasury normally, from a quality perspective, assesses the budget against the following three criteria:

- Credibility;
- Relevance; and
- Sustainability.

The 2013/2014 Multi-year budget has been compiled with the above in mind to ensure that key observations by National Treasury during their reviews of the 2010/2011, the 2011/2012 and 2012/2013 Multi- year Budgets have been taken care of.

The 2013/2014 Multi-year Budget for the uMhlathuze Municipality has followed the same trend as with the 2012/2013 budget, where emphasis is placed on basic and critical service delivery cost centres.

CAPITAL BUDGET SUMMARY

The primary points of note and challenges as far as capital budget is concerned are:

- 1) The limit of leverage the Municipality has in borrowing money externally. Following an independent analysis by INCA Local Government Financial Management Consultants, the exposure of R100 million, R80million and R80million over the next three financial years under the current financial conditions is acceptable;
- 2) Although the needs for services far out weigh the resources available, the ability of the Administration to spend both internal and grant funds needs to be first considered before the final decision is made to take up any further loans. The recommendations in this report are structured such so as to mitigate the risk here;
- 3) The importance of proper assets management to allow for correctly prioritised assets maintenance programs to ensure that such assets do not fail is an imperative not only for efficient and effective service delivery but also to ensure that the limited resources provided in Repairs and Maintenance budgets and Capital refurbishment and Replacement programs are used with optimum priority. This because it is not financially sustainable to be replacing or renewing components of assets that have not met their economic life span or on non-priority assets;
- 4) Internal cash backed reserves in the Capital Replacement Reserve Account are fortunately improving. The 2012/13 Adjustment Budget has R51million and the 2013/14 budget has R50 million rand available;
- 5) Grant Funding made up primarily of MIG grants to the tune of R112 million (MIG R83 million) is provided in the budget as per the DORA Gazette. The risk for Council with these funds is that under spending on the current years grants may result in funds been withdrawn at year end.

Table 1 - Sources of Finance

The 2013/2014 Capital Budget amounting to **R 256,8 million** will be financed from the following sources:

SOURCES OF FINANCE	2012/2013 ADJUSTED BUDGET	TABLED 2013/2014 BUDGET
	R' 000	R' 000
External Loans	55 093	100 000
Capital Replacement Reserve (CRR)	50 834	50 000
Public Contribution	2 130	5 360
Other Government Grants and Subsidies	25 425	28 000
Municipal Infrastructure Grant	83 518	83 697
Housing Reserve	16 547	4 758
TOTAL FINANCING	233 547	256 815

Table 2 - Source by Function

FUNCTION	2012/2013 ADJUSTED BUDGET	TABLED 2013/2014 BUDGET
	R' 000	R' 000
Executive and Council	202	98
Budget and Treasury Office	2 202	789
Corporate Services	26 792	17 586
Community and Social services	11 116	18 231
Sport and Recreation	7 564	18 308
Public Safety	5 491	16 269
Housing	8 925	0
Health	263	268
Planning and Development	136	298
Road Transport	27 480	17 380
Electricity	45 665	26 936
Water	53 415	66 867
Waste water management (Sanitation)	43 225	60 170
Waste Management (Solid waste)	1 070	13 615
TOTAL	233 547	256 815

OPERATING BUDGET SUMMARY

The primary points of note and challenges as far as the operating budget is concerned are:

1. Council is only now in its third year of the “ Tariff Pricing Risk Strategy” which is an endeavor to make tariffs more cost reflective, properly bench marked and strategically structured to support the universal approach to providing for the poor and providing free basic services to indigent consumers. The down side of the “pricing strategy” is that it is taking place in a depressed economy where increases should ideally be in line with inflation and not above the inflation rate;
2. One of the major differences in this tabled budget compared to previous financial years is the absence of a complete Tariff of Charges and Rates Randage due to administrative delays in finalizing the Municipality’s valuation roll and the NERSA delays in setting electricity tariff parameters. This implies that no average consumer account and benchmarking in the media and public participation process can illustrated;
3. The 2013/14 operating budget includes the **costing reforms** proposed by National Treasury in their project to use uMhlathuze as a pilot site for such reforms. Refer to paragraph “*Management Accounting and Tariff Setting*” on page 10 of Circular 66. The objective of this specific reform is to ensure municipal service tariffs are more cost reflective of the service they are rendering and provide the Administration with management account reports;
4. One of the reforms in terms of the phased in approach to the “Tariff Pricing Risk Strategy” that is proposed in the Tariff of Charges to be finalized in the final adopted budget approval, is that of domestic refuse tariffs. These will be based on land value as the parameters for a tiered or IBT (Inclining Block Tariff). This approach is exactly in line with the approach adopted for Rates, Electricity and Water charges on residential consumers. In the 2014/15/16 budget the same methodology will be applied to the residential sewer tariffs. Please see detail in 10.3 of Budget Assumptions;
5. The absence of a financial implementation plan approved by Council for the new organizational structure is placing tremendous strain on the compilation of the operational budget. It is recommended that all Departments submit their five year implementation plan for the organogram to Council prior to the commencement of the 2013/2014 budget approval;
6. Following the submission of the 2012/2013 Final Municipal Budget and Reporting Regulations Tables in the prescribed format, National Treasury has scrutinised the adopted tables and suggested various amendments to the tables. These amendments have been compiled with however National Treasury has noted that uMhlathuze is failing to provide sufficient data in **Table A10 - Basic service delivery measurement**;
7. A major challenge in the preparation of this budget is the time and energy taken in compiling the Adjustments Budget. The Council and Administration are going to seriously look at avoiding the Adjustments Budget becoming a whole budgeting process on its own; and
8. The following tables summarise the expenditure and revenue budgets by category and source respectively:

Table 3 - Surplus/ (Deficit)

	TABLED 2013/2014 MTREF	TABLED 2014/2015 MTREF	TABLED 2015/2016 MTREF
	R'000	R'000	R'000
Total Operating Revenue (Detail as per table below - Table 5)	2 047 563	2 206 616	2 430 981
Total Operating Expenditure (Detail as per table below - Table 4)	1 941 725	2 111 222	2 319 575
Operating Surplus/ (Deficit)	105 838	95 394	111 406
Less: Capital Grants recognised	(96 697)	(87 713)	(103 711)
Surplus/(Deficit) for the year	9 141	7 681	7 695

The 2013/2014 Tabled Operational Budget amounting to **R1 941 724 500** comprises of the following elements:

Table 4 - Expenditure by Category

EXPENDITURE PER CATEGORY	ADOPTED BUDGET 2012/2013	2012/2013 SECOND DRAFT ADJUSTMENT BUDGET	% OF ADJ. BUDGET	TABLED ORIGINAL BUDGET 2013/2014	% OF BUDGET
	R'000	R'000		R'000	
Employee related costs	451 428	449 751	24%	502 238	26%
Remuneration of Councillors	19 388	19 388	1%	21 529	1%
Debt Impairment	2 500	2 500	1%	2 075	1%
Depreciation and Offsetting of depreciation	106 218	106 218	6%	145 218	7%
Finance Charges	82 441	82 441	4%	78 288	4%
Bulk Purchases - Electricity	801 662	820 535	44%	833 637	43%
Bulk Purchases - Water	91 224	93 688	5%	93 300	5%
Other materials	35 396	34 560	2%	36 045	2%
Contracted Services	116 024	123 264	7%	180 010	9%
Transfers and grants	8 132	8 930	1%	9 288	1%
Other Expenditure	97 881	130 034	5%	40 096	2%
TOTAL	1 812 294	1 871 308		1 941 725	

The sources of funding the above comprise of the following revenue categories:

Table 5 - Revenue By Source

REVENUE BY SOURCE	ADOPTED BUDGET 2012/2013	2012/2013 SECOND DRAFT ADJUSTMENT BUDGET	% OF ADJ. BUDGET	TABLED ORIGINAL BUDGET 2013/2014	% OF BUDGET
	R'000	R'000		R'000	
Rates	231 260	238 260	13%	261 609	13%
Service Charges - Electricity Revenue	1 077 000	1 093 000	59%	1 108 000	57%
Service Charges - Water Revenue	159 445	152 265	8%	166 853	9%
Service Charges - Sanitation Revenue	69 300	67 800	4%	74 241	4%
Service Charges - Refuse Revenue	51 300	52 100	3%	57 050	3%
Service Charges - Other Revenue	14 084	14 993	1%	12 472	1%
Operating Grants and Subsidies - Equitable Share	179 139	179 139	10%	190 384	10%
Operating Grants and Subsidies - Other Grants	25 752	25 852	1%	29 251	1%
Rental of facilities and equipment	6 130	15 204	1%	10 878	1%
Interest Received - External Investments	1 648	3 954	1%	4 152	1%
Interest Received - Outstanding debtors	1 317	1 601	1%	1 597	1%
Fines	2 052	11 412	1%	10 102	1%
Licenses and permits	1 686	1 883	1%	2 747	1%
Agency services	5 300	5 800	1%	5 800	1%
Other Revenue	12 655	13 263	1%	15 729	1%
TOTAL	1 838 068	1 876 526		1 950 865	

The percentage increase of revenue in the 2013/2014 Operating Budget is as follows:

SERVICE	Percentage
Rates	9,8%
Refuse	9,5%
Sewerage	9,5%
Electricity	7,5%
Water	9,5%
Water: Clarified	9,5%
General	7,0%

The specific impact on consumer and ratepayers accounts cannot be illustrated as the Valuation Roll is not yet finalized and NERSA has not yet finalized their tariff parameters for municipalities.

1. The primary tactics taken in compiling the above budgets can be summarised as follows:
 - A significant amount of restraint was placed on operating expenditure, which does not have an immediate effect on service delivery;
 - Preference was given to well-structured multiyear business plans, unfortunately service delivery departments are submitting business plans in silo's and in the absence of a Municipal Assets Management Policy, departments submitting sound plans in isolation will be prejudiced, but the CFO tried his best to avoid that risk
 - Every effort possible was made not to reduce Repairs and Maintenance submissions.
 - Community upliftment and empowerment of rural areas.
 - Economic development and attraction of investment.
 - Maintenance of development standards in all areas.
 - Opportunities for affordable housing.
 - Protection of the poor.
 - Balancing social and economic progress whilst protecting the integrity of the ecological environment.

SOCIAL INITIATIVES SUMMARY

For the purposes of the executive summary there are far too many social initiatives to mention, however the following are those felt particularly pertinent to mention in this report.

- **Indigent Relief**
 1. Free first 6 kilolitres of water.
 2. Free Rates if property is valued less than R75 000.
 3. Free Refuse if property is valued less than R75 000.
 4. Free Sewer if property is valued less than R75 000.

The property values mentioned in point 2 - 4 above, will be adjusted when the Valuation Roll is finalised

1. Free 50 kilowatts of electricity.

- **Poor household relief**

Over and above the free services for indigent consumers, relief on a targeted basis is also provided to specific households whose socio/economic circumstances are dire. These cases are registered and managed by dedicated Municipal staff on an on-going basis.

➤ **Pensioners and Social Grantees**

- Date for application for rebates and exemptions before 31 May of each year.
- Rebate of R100 000 on Primary residential property on application.

The property value mentioned above, will be adjusted when the Valuation Roll is finalized

- **All rural communities** have strategically placed **free refuse skips** wherein refuse can be placed free of charge.

BUDGET CIRCULARS 66 AND 67

National Treasury issued a Municipal Budget Circular Number 66 (**DMS 843616**) for the 2013/2014 MTREF on 11 December 2012. A further circular 67 was issued by National Treasury on 12 March 2013 (**DMS 859962**). These circulars provide guidance to municipalities for the preparation of their 2013/2014 Budgets and MTREF.

The Circulars covers the following various topics amongst others:

❖ **National priority - Expanding public sector investment in infrastructure**

- ❑ The key priorities in the local government and housing function are the provision of basic services such as water and sanitation, human settlements development and local government infrastructure.
- ❑ In addition, creating decent employment opportunities remains a national priority.
- ❑ The municipality ought to focus on maximizing its contribution to job creation by:
 - ✓ Ensuring that service delivery and capital projects use labour intensive methods wherever appropriate;
 - ✓ Ensuring that service providers use labour intensive approaches;
 - ✓ Supporting labour intensive LED projects;
 - ✓ Participating fully in the Expanded Public Works Programme; and
 - ✓ Implementing interns programmes to provide young people with on-the-job training.

❖ **Image of Local Government**

❖ **Procurement reforms and fighting corruption**

❖ **Taking the 2011 Local Government Budgets and Expenditure Review forward**

- ❑ The Review highlights the following areas as requiring particular attention by municipalities:
 - Revenue management
 - Collecting outstanding debts
 - Pricing services correctly
 - Under spending on repairs and maintenance

- Spending on non-priorities - The following additional examples of non-priority expenditure have been observed, and municipalities are reminded that they need to be eliminated:
 - ✓ excessive sponsorship of music festivals, beauty pageants and sporting events, including the purchase of tickets to events for councillors and/or officials;
 - ✓ public relations projects and activities that are not centred on actual service delivery or are not a municipal function (e.g. celebrations; gala dinners; commemorations, advertising and voter education);
 - ✓ LED projects that serve the narrow interests of only a small number of beneficiaries or fall within the mandates of other government departments such as the Department of Agriculture;
 - ✓ excessive catering for meetings and other events, including the use of public funds to buy alcoholic beverages;
 - ✓ arranging workshops and events at expensive private venues, especially ones outside the municipality (as opposed to using the municipality's own venues);
 - ✓ excessive printing costs (instead of maximising the use of the municipality's website, including providing facilities for the public to access the website);
 - ✓ excessive luxurious office accommodation and office furnishings;
 - ✓ foreign travel by mayors, councillors and officials, particularly 'study tours';
 - ✓ excessive councillor and staff perks such as luxurious mayoral cars and houses, notebooks, IPADS and cell-phone allowances; travel and subsistence allowances.
 - ✓ excessive staff in the office of the mayor - particularly the appointment of political advisors' and 'spokespersons';
 - ✓ all donations to individuals that are not made in terms of the municipality's indigent policy or a bursary scheme; for instance donations to cover funeral costs (other than pauper burials which is a district municipality function);
 - ✓ costs associated with long-standing staff suspensions and the legal costs associated with not following due process when suspending or dismissing staff, as well as payment of severance packages or 'golden handshakes'; and
 - ✓ the use of consultants to perform routine management tasks, and the payment of excessive fees to consultants.

❖ **Local government equitable share formula review and 2011 Census**

❖ **Impact of the new formula on municipal budgets**

❖ **Local government conditional grants and additional allocations to local government**

❖ **Council oversight over the budget process**

- ❑ Over the last few years, an escalating trend in unauthorised, irregular and fruitless and wasteful expenditures has been observed by the Auditor-General in its annual reports on local government audit outcomes. Many municipalities have not dealt effectively with instances of unauthorised, irregular and fruitless and wasteful expenditure.

- ❑ Therefore, each council has a duty to put in place policies and processes to:
 - ✓ Prevent unauthorised, irregular and fruitless and wasteful expenditure;
 - ✓ Identify and investigate unauthorised, irregular and fruitless and wasteful expenditure; and
 - ✓ Respond appropriately, and in accordance with the law, to confirmed instances of unauthorised, irregular and fruitless and wasteful expenditure.

❖ **Regulation of a 'Standard Chart of Accounts' (SCOA) for Local Government**

❖ **Financial applications (systems) and the impact of SCOA**

❖ **Management accounting and tariff setting**

- ❑ The Technical Committee on Finance (TCF) endorsed a pilot project to be undertaken at a local municipality in reviewing and researching an appropriate cost management methodology for local government.
- ❑ The project involved unpacking the adopted municipal budget for the 2012/13 financial year, evaluating cost distribution tools and methodologies and testing appropriateness of applications.
- ❑ The first phase of the project is nearing completion and a guideline will be distributed early in 2013 providing municipalities with a generic management accounting methodology.
- ❑ The City of uMhlathuze was selected as the pilot site for this project.

❖ **Municipal Budget and Benchmark Engagements and timeframes for tabling MTREF'S**

❖ **Renewal and repairs and maintenance of existing assets**

- ❑ It is observed that budget appropriations for renewal and operational repairs and maintenance of existing asset infrastructure is still not receiving adequate priority regardless of guidance supplied in MFMA Circular No. 55 - Municipal Budget Circular of the 2011/12 MTREF.
- ❑ For the 2013/14 budgets and MTREF's municipalities must take into consideration:
- ❑ Where the municipality allocates less than 40 per cent of its 2013/14 Capital Budget (as reflected on Table A9) to the renewal of existing assets it must provide a detailed explanation and assurance that the budgeted amount is adequate to secure the on-going health of the municipality's infrastructure supported by reference to its asset management plan;
- ❑ Where the budgeted amounts for repairs and maintenance reflected on Table A9 are less than 8 per cent of the asset value (write down value) of the municipality's Property Plant and Equipment (PPE) as reflected in the municipality's 2011/12 annual financial statements, the municipality must provide a detailed explanation and assurance that the budgeted amount is adequate to secure the on-going health of the municipality's infrastructure supported by reference to its asset management plan; and
- ❑ In the case of a municipality that received an audit qualification related to its assets register, where the budgeted amounts for repairs and maintenance reflected on Table A9 are less than 10 per cent of the municipality's operating expenditure on Table A4, the municipality must provide a detailed explanation and assurance that the budgeted amount is adequate to secure the on-going health of the municipality's infrastructure supported by reference to its asset management plan.

❖ **Completion of service delivery information on Table A10**

- ❑ Similar to the previous budget compilation process, municipalities are reminded that Table A10 is becoming an increasingly important source of information on actual service delivery and service delivery backlogs; during the assessment of the 2012/13 budgets and MTREF's it was observed that the information provided in this Table A10 lacks credibility and compromises transparency and accountability of the entire budget process.
- ❑ National Treasury plans to prepare a special report on this service delivery information for Parliament in the second half of 2013. It is therefore important for each municipality to ensure its information is up-to-date and accurate. In addition, during the assessment of the 2013/14 budgets and MTREF's specific attention will be given to Table A10 by National Treasury and all respective provincial treasuries. Municipalities are advised to give particular attention with the completion of Table A10 in ensuring the information accurately depicts the actual position of the municipality.

❖ **Cellular telephone (mobile) and data contract policy**

- ❑ It has to come to the attention of National Treasury that there are efficiency leakages in the way that municipalities manage costs associated with cellular telephones and mobile data (3G).
- ❑ National Treasury has come across instances where municipalities are spending tens of thousands on individual contracts per month. This situation must be urgently addressed by all municipalities in ensuring cost efficiency and value for money for the tax payer.
- ❑ Where such a policy is not already in place, municipalities are required to compile and approve a cellular telephone (mobile) and data (3G) policy with effect of 1 July 2013.
- ❑ The policy must set upper monthly limits for costs associated with these expenses and the 2013/14 MTREF budget must be compiled in line with these limits. National Treasury will request the Auditor General to audit against the policy for the 2013/14 financial year and where it is found that expenditure was incurred outside the limits contained in the policy framework, such expenditure will be classified as fruitless and wasteful expenditure as part of the 2013/14 audit finding.

2010 GOVERNMENTS TWELVE OUTCOMES

In January 2010, Cabinet adopted 12 outcomes within which to frame public service delivery priorities and targets.

All municipalities are expected to take the 12 outcomes into consideration when reviewing their IDPs and developing their annual budgets for the 2013/2014 MTREF.

The following are the 12 outcomes of government and the role of local government:

Outcome	Role of local government
1) Improve the quality of basic education	○ Facilitate the building of new schools by: ● Participating in needs assessments ● Identifying appropriate land ● Facilitating zoning and planning processes ○ Facilitate the eradication of municipal service backlogs in schools by extending appropriate bulk infrastructure and installing connections.
2) Improve health and life expectancy	○ Many municipalities perform health functions on behalf of provinces. ○ Strengthen effectiveness of health services by specifically enhancing TB treatments and expanding HIV and AIDS prevention and treatments. ○ Improve Community Health Services infrastructure by providing clean water, sanitation and waste removal services.
3) All people in South Africa protected and feel safe	○ Facilitate the development of safer communities through better planning and enforcement of municipal by-laws. ○ Direct the traffic control function towards policing high risk violations - rather than revenue collection.
4) Decent employment through inclusive economic growth	○ Create an enabling environment for investment by streamlining planning application processes. ○ Ensure proper maintenance and rehabilitation of essential services infrastructure. ○ Ensure proper implementation of the EPWP at municipal level. ○ Design service delivery processes to be labour intensive. ○ Improve procurement systems to eliminate corruption and ensure value for money. ○ Utilise community structures to provide services.
5) A skilled and capable workforce to support inclusive growth	○ Develop and extend intern and work experience programmes. ○ Link municipal procurement to skills development initiatives.
6) An efficient, competitive and responsive economic infrastructure network	○ Ring-fence water, electricity and sanitation functions so as to facilitate cost-reflecting pricing of these services. ○ Ensure urban spatial plans provide for commuter rail corridors as well as other modes of public transport. ○ Maintain and expand water purification works and waste water treatment works in line with growing demand. ○ Cities to prepare to receive the devolved public transport function. ○ Improve maintenance of municipal road networks.

Outcome	Role of local government
7) Vibrant, equitable and sustainable rural communities and food security	○ Facilitate the development of local markets for agricultural produce. ○ Improve transport links with urban centres so as to ensure better economic integration. ○ Promote home production to enhance food security. ○ Ensure effective spending of grants for funding extension of access to basic services.
8) Sustainable human settlements and improved quality of household life	○ Cities must prepare to be accredited for the housing function. ○ Develop spatial plans to ensure new housing developments are in line with national policy on integrated human settlements. ○ Participate in the identification of suitable land for social housing. ○ Ensure capital budgets are appropriately prioritised to maintain existing services and extend services.
9) A responsive and accountable and effective local government system	○ Adopt IDP planning processes appropriate to the capacity and sophistication of the municipality. ○ Implement the community work programme. ○ Ensure ward committees are representative and fully involved in the community consultation processes around the IDP, budget and other strategic service delivery issues. ○ Improve municipal financial and administrative capacity by implementing competency norms and standards and acting against incompetence and corruption.
10) Protection and enhancement of environmental assets and natural resources	○ Develop and implement water management plans to reduce water losses. ○ Ensure effective maintenance and rehabilitation of infrastructure. ○ Run water and electricity saving awareness campaigns. ○ Ensure proper management of municipal commonage and urban open spaces. ○ Ensure development does not take place on wetlands.
11) A better South Africa, a better and safer Africa and world; and	○ Role of local government is fairly limited in this area. ○ Must concentrate on: • Ensuring basic infrastructure is in place and properly maintained. • Creating an enabling environment for investment.
12) A developed-orientated public service and inclusive citizenship.	○ Continue to develop performance monitoring and management systems. ○ Comply with legal financial reporting requirements. ○ Review municipal expenditures to eliminate wastage. ○ Ensure Councils behave in ways to restore community trust in local government.

4. **ABBREVIATIONS DEFINED**

ABBREVIATION	DEFINITION
CPI	Consumer Price Index
CRR	Capital Replacement Reserve
DORA	Annual Division of Revenue Act is the Act of Parliament which must be enacted annually in terms of section 214(1) of the Constitution
DWA	Department of Water Affairs
EFF	External Financing Fund
GFS	Government Finance Statistics. In order to facilitate comparisons, GFS functions provide a reasonably high level grouping of related service delivery activities for Local Government. (MFMA Circular No 12) (DMS 347143).
GRAP	Generally Recognised Accounting Practices
IDP	Integrated Development Plan
LED	Local Economic Development
MFMA	Municipal Finance Management Act, No. 56 of 2003
MIG	Municipal Infrastructure Grant
MTREF	Medium Term Revenue and Expenditure Framework
QUALITY CERTIFICATE	In relation to a municipality is a certificate issued and signed by the municipal manager confirming the accuracy and reliability of the contents of document prepared or issued by the municipality
SDBIP	Service Delivery Budget Implementation Plan which is a detailed plan approved by the Mayor of a Municipality in terms of section 53(1)(c)(ii) for implementing the municipality's delivery of municipal services and its annual budget
VOTE	(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and (b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

5. **ANNUAL BUDGET TABLES**

The following budget statement tables (**DMS 855932**) - **Annexures B1 to B53** respectively have been prepared in accordance with the Municipal Budgeting and Reporting Regulations:

TABLE NUMBER	DESCRIPTION	ANNEXURE
Table A1	Budget Summary	B1
Table A2	Budget Financial Performance (Standard Classification)	B2
Table A2A	Budget Financial Performance (Detail) (Standard Classification)	B3
Table A3	Budget Financial Performance (Revenue and Expenditure by Municipal Vote)	B4
Table A3A	Budget Financial Performance (Detail) (Revenue and Expenditure by Municipal Vote)	B5

TABLE NUMBER	DESCRIPTION	ANNEXURE
Table A4	Budget Financial Performance (Revenue by source and Expenditure by Item)	B6
Table A5	Budgeted Capital Expenditure Budget by vote, standard classification and funding	B7
Table A5A	Budgeted Capital Expenditure Budget by vote, standard classification and funding	B8
Table A6	Budgeted Financial Position	B9
Table A7	Budgeted Cash Flows	B10
Table A8	Cash backed reserves/Accumulated surplus reconciliation	B11
Table A9	Asset Management	B12
Table A10	Basic service delivery measurement (Incomplete)	B13
Table SA1	Supporting detail to Budgeted Financial performance	B14
Table SA2	Financial Performance Budget (revenue source/expenditure type and dept)	B15
Table SA3	Supporting detail to Budgeted Financial Position	B16
Table SA4	Reconciliation of IDP strategic objectives and budget (revenue)	B17
Table SA5	Reconciliation of IDP strategic objectives and budget (operating expenditure)	B18
Table SA6	Reconciliation of IDP strategic objectives and budget (capital expenditure)	B19
Table SA7	Measurable Performance Objectives (Incomplete)	B20
Table SA8	Performance indicators and benchmarks	B21
Table SA9	Social, Economic and Demographic statistics and assumptions (Incomplete)	B22
Table SA10	Funding Measurement	B23
Table SA11	Property Rates summary (Property Admin section incomplete)	B24
Table SA12 (a)	Property Rates by category (current year) (Property Admin section incomplete)	B25
Table SA12 (b)	Property Rates by category (budget year) (Property Admin section incomplete)	B26
Table SA13 (a)	Service Tariffs by Category (Property Admin section incomplete)	B27
Table SA13 (b)	Service Tariffs by Category (Explanations incomplete)	B28
Table SA14	Household Bills (Incomplete)	B29
Table SA15	Investment particulars by type	B30
Table SA16	Investment particulars by maturity	B31
Table SA17	Borrowing	B32
Table SA18	Transfers and Grants receipts	B33
Table SA19	Expenditure on transfers and grant programmes	B34
Table SA20	Reconciliation of transfers, grants and unspent funds	B35
Table SA21	Transfers and grants made by the Municipality	B36
Table SA22	Councillor and Staff Benefits	B37
Table SA23	Salaries, Allowances and benefits	B38
Table SA24	Summary of Personnel numbers	B39
Table SA25	Budgeted monthly revenue and expenditure (Revenue by source and expenditure by type)	B40

TABLE NUMBER	DESCRIPTION	ANNEXURE
Table SA26	Budgeted monthly revenue and expenditure (Municipal vote)	B41
Table SA27	Budgeted monthly revenue and expenditure (Standard classification)	B42
Table SA28	Budgeted monthly capital expenditure (Municipal vote)	B43
Table SA29	Budgeted monthly capital expenditure (Standard classification)	B44
Table SA30	Budgeted monthly cash flow	B45
Table SA32	List of external mechanisms	B46
Table SA33	Contracts having future budgetary implications	B47
Table SA34a	Capital expenditure on new assets by asset class	B48
Table SA34b	Capital expenditure on the renewal of existing assets by asset class	B49
Table SA34c	Repairs and maintenance expenditure by asset class	B50
Table SA34d	Depreciation by asset class	B51
Table SA35	Future financial implications of the capital budget	B52
Table SA36	Detailed capital budget	B53
Table SA37	Projects delayed from previous financial years	B54

PART 2 - SUPPORTING DOCUMENTATION

6. OVERVIEW OF ANNUAL BUDGET PROCESS

□ **Political oversight of the budget process**

Section 53 of the MFMA requires that the Mayor provides general political guidance over the budget process and the priorities that must guide the preparation of the budget. In compliance with this, meetings are held regularly between the Mayor and the Chief Financial Officer regarding the budget process and the progress thereon.

□ **Schedule of Key Deadlines relating to budget process [MFMA S21(1)(b)]**

The Act requires the formal budget process to start with the tabling by the Mayor in Council, a time schedule outlining key deadlines for the preparation, tabling and approving of the annual budget. Council Resolution 8085 dated 4 September 2012 (RPT 152238) contains the detailed time schedule.

□ **Process used to integrate the review of the IDP and preparation of the budget**

The annual review of the IDP is a legislative requirement in terms of Section 34 of the Municipal Systems Act No 32 of 2000. It stipulates that a Municipal Council must review its integrated plan annually in accordance with an assessment of its performance measurements in terms of Section 41; and to the extent that changing circumstances so demand; and may amend its integrated development plan in accordance with a prescribed process. The Annual Budget and the IDP are inextricably linked to one another, something that has been formalised through the promulgation of the Municipal Finance Management Act (2004).

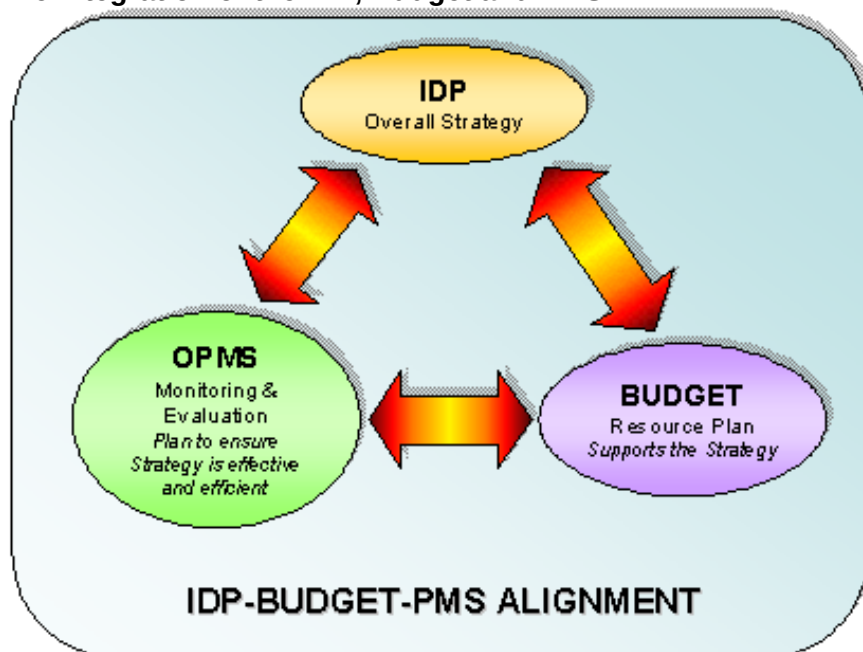
The IDP when implemented correctly is a good tool for promoting the redistribution of income and an effective instrument to strengthen the relationship between local government and the local community. The IDP and Budget Public

Participation Processes is an arena for co-management in which the community and government decide together where and how the city's resources and investments will be allocated. Public discussion and decision making concerning the priority areas of government investment has been making it possible to highlight priorities, insisting on administrative transparency and changing the way residents relate to their municipality.

The IDP in uMhlathuze sets the basis for translating into financial terms and activities that which will deliver services. The overall objectives of budget planning cycle of the municipality has managed to co-ordinate the implementation of the IDP, which needs to ensure that the budget is affordable to deliver on the expectations of the community.

The IDP consultation process involved the clustering of a few wards in order to afford an opportunity for a hearing of the needs. The attendance of these meetings informs the IDP priorities, programmes and projects for service delivery planned. The budget and Performance Management process monitors the progress throughout the year to ensure the IDP priorities are being achieved. The graph below shows the link between the IDP and budget planning processes that has created a complex and dynamic management environment for the municipality.

Figure: The integration of the IDP, Budget and PMS



❑ **Process for consultations, stakeholders involved and timing, number and type of consultations**

The IDP approach is based on the principle of inclusive and representative consultation and/or participation of all residents, communities and stakeholders within the municipal area, as well as representatives from other spheres of Government, sector specialists, and other resource persons. The Municipality followed structured participation through organisations and legitimate representatives. Direct participation of residents and community members through public meetings were organised by both Councillors and officials to listen to their concerns and their needs.

uMhlathuze Municipality's communication strategy entails that:

- Ward Committee members and Councillors are part of the preparation of ward meetings.
- IDP community sessions are held in venues closest to the community;
- Release of print media press when required to local and provincial newspapers are in Zulu and English;
- SMS's, flyers and loud hailing are also used as a strategy to sensitise the community to attend the IDP meetings;
- Monthly internal and external newsletters are used to publish IDP/Budget news; and
- Council provides transport for community members to respective venues.

Wards cluster meetings were held in October/November 2012.

□ **Budget Steering Committee**

In terms of the budget regulations, the Mayor is required to establish a Budget Steering Committee, which provides technical assistance to the Mayor.

Council's Budget steering committee consists of the following members:

- Mayor
- Deputy Mayor
- Speaker
- Chief Whip
- Municipal Manager
- Chief Financial Officer
- All Deputy Municipal Managers

□ **Process for tabling the budget in Council for consideration of approval**

In terms of Section 16(2) of the MFMA, the Mayor is required to table the annual budget at a Council meeting at least 90 days before the start of the budget year. The Tabled 2013/2014 Medium Term Revenue and Expenditure Framework (MTREF) will be tabled to the Executive Committee on 25 March 2013 and Council on 26 March 2013.

In addition Section 22(a) of the MFMA requires that immediately after an annual budget is tabled in Council as per Section 16(2), the Accounting Officer of the Municipality must make public the annual budget and invite the local community to submit representations in connection with the budget.

An insert will be included in the local newspapers highlighting the Tabled 2013/2014 Medium Term Revenue and Expenditure Framework (MTREF) thereby inviting comments from the public.

Furthermore, the Executive Committee will approve a schedule of public meetings to be held at various locations to provide an opportunity for the public to comment on the budget.

A meeting is also scheduled with the AmaKhosi and their leadership in order to strengthen Council's relationship with traditional leaders.

The dual approach that provides for the engagement of Ward Committees firstly and thereafter the broad community, proved to be a success in the previous 5 years' budget public participation processes. It created a sense of ownership and belonging to the Ward Committees and allowed them to assist in various ways during the process of broader community participation.

The administrative planning process also took into consideration the cluster approach that was used in the previous 5 years' budget public participation. The advantage and benefit for the use of clusters is that it creates a shared sense of belonging amongst the citizens as well as an understanding of the diverse issues and needs amongst the community of the Municipality.

The following meetings are proposed for the 2013/2014 budget public participation meetings:

CLUSTER	WARDS	VENUE	DATE	TIME
	Amakhosi	R/Bay Civic Centre (Auditorium)	10 April 2013 (Wednesday)	10:00
1	Ward Committees	R/Bay Civic Centre (Auditorium)	Joint Budget Road show with uThungulu District 11 April 2013 (Thursday)	17:00
10 & 11	24, 25, 27, 28, 29	Ngwelezane Community Hall	14 April 2013 (Sunday)	14:00
6	9, 23, portion 24	Imbizo Conference Centre	16 April 2013 (Tuesday)	17:00
5	1, 2, 3, 4, 26	R/Bay Civic Centre (Auditorium)	17 April 2013 (Wednesday)	17:00
2 & 3	5, 6, 7 & 8	Emayini Sportsfield	20 April 2013 (Saturday)	14:00
8	15, 16, 17, 21, 22	eSikhaleni College	21 April 2013 (Sunday)	14:00
9	18, 19, 20	Hlanganani Community Hall	28 April 2013 (Sunday)	14:00
12	Stakeholders	R/Bay Civic Centre (Council Chambers)	30 April 2013 (Tuesday)	17:00
7	12, 13, 14	Mandlankala Community Hall	4 May 2013 (Saturday)	14:00
4	10, 11, 30	Vulindlela Hall	5 May 2013 (Sunday)	14:00

The above dates are in draft and will be amended accordingly. A draft Report (RPT 153338) is in circulation.

The programme is an endeavour to ensure maximum participation, particularly by Council's role-players. The programme is rigorous, extensive and gruelling due to time constraints as previously mentioned, largely exacerbated by public holidays that in the main create extended weekends that would make it difficult to hold meetings on those days, i.e. Easter Weekend, Freedom Day and Workers.

❑ **Process for approving the budget**

In terms of Section 24 of the MFMA, the Municipal Council is required to approve the annual budget at least 30 days before the start of the budget year.

Amendments may be made to the Tabled 2013/2014 Medium Term Revenue and Expenditure Framework (MTREF) following the public participation meetings held.

The Adopted 2013/2014 Medium Term Revenue and Expenditure Framework (MTREF) will serve at the Executive Committee and Council will subsequently consider the approval of the Adopted 2013/2014 Medium Term Revenue and Expenditure Framework (MTREF) in May 2013.

❑ **Process and media that will be used to provide information on the budget to the community and methods to be employed to make the budget document available**

- An insert was included in the local newspapers to highlight the Draft 2013/2014 Budget.
- A full page insert highlighting the key points of the 2013/2014 Medium Term Revenue and Expenditure Framework (MTREF) was included in the local newspapers.
- The 2013/2014 Medium Term Revenue and Expenditure Framework (MTREF) has been highlighted in Council's April 2013 uMhlathuze newsletter.
- Notification of the public participation meetings has been advertised in the local newspapers.
- Detailed copies of the 2013/2014 Medium Term Revenue and Expenditure Framework (MTREF) were made available for inspection at all municipal offices and libraries within the City of uMhlathuze.
- The 2013/2014 Medium Term Revenue and Expenditure Framework (MTREF) has also been made available on Council's website www.richemp.org.za

7. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH THE INTEGRATED DEVELOPMENT PLAN

The annual review of the IDP is a legislative requirement in terms of Section 34 of the Municipal Systems Act No 32 of 2000. It stipulates that a Municipal Council must review its integrated plan annually in accordance with an assessment of its performance measurements in terms of Section 41; and to the extent that changing circumstances so demand; and may amend its integrated development plan in accordance with a prescribed process. The alignment between the Annual Budget and the IDP has been formalised through the promulgation of the Municipal Finance Management Act (2004). Chapter 4 and Section 21 (1) of the Municipal Finance Management Act (MFMA) indicate that:

“(1) The Mayor of a municipality must-

...(b) at least 10 months before the start of the budget year, table in the municipal council a time schedule outlining key deadlines for the

(i) The preparation, tabling and approval of the annual budget;

(ii) The annual review of:

(aa) The integrated development plan in terms of section 34 of the Municipal Systems Act; and

(bb) The budget related policies.

- (iii) *The tabling and adoption of any amendments to the integrated development plan and the budget-related policies; and*
- (iv) *The consultative processes forming part of the processes referred to in subparagraphs (i), (ii) and (iii)."*

The Integrated Development Plan (IDP) outlines the Municipality's development objectives and provides a policy framework that guides management in decision making related to **budgeting** and planning of uMhlathuze. In terms of the uMhlathuze Municipality we have five strategies within the IDP that are outcomes based: -

- **Good Governance** focuses on ensuring compliance and implementation of legislations, policies, resolutions and programmes of provincial and national governments in performing its functions and duties.
- **Infrastructure and Services Provision** relates to the development of an environmentally friendly, efficient and integrated city with sustainable Municipal Infrastructure Provision and Service Delivery.
- **Social and Economic Development leads to the creation of** opportunities through economic growth and development to increase economic stability by creating new functional linkages with other economic activities through enhancing a prudent and efficient use of social and economic infrastructure to meet future demands and to promote social cohesion and the creation of a safe and healthy living environment.
- **Institutional Development** ensures a healthy, harmonious and enthusiastic team committed to achieving the Vision and Mission of the Municipality
- **Sound Financial Management** ensures secure, sound and sustainable management of the fiscal and financial affairs of the municipality and that the IDP informs the budget.

Linked to these strategies, objectives and programmes have been identified in the Integrated Development Plan. These programmes will form the main focus areas in terms of the financial plan for the Integrated Development Plan. This process of reconciling Council's Financial Plan Budget to its Integrated Development Plan created a whole new method of budgeting. Council can now ensure that priorities within the budget are focused towards its strategies and objectives.

Input from all stakeholders is considered and prioritization takes place. In compliance with the Municipal Structures Act and MFMA the city's budget must be informed by and aligned to the IDP objectives. The budgetary allocations for both capital and operating expenditure need to be undertaken in a manner that will not only ensure that the IDP outcomes are achieved but also leads to the city's vision being realized. This ensures that the IDP directs the development and implementation of projects.

The municipality ensured that the key priorities of the IDP are given a bigger slice in terms of new spending.

8. MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

Section 69(3)(a) of the Municipal Finance Management Act, 2003 (MFMA) requires the Accounting Officer to submit a Draft Service Delivery and Budget Implementation Plan (SDBIP) to the Mayor no later than 14 days after the approval of the budget and drafts of the performance agreement as required in terms of section 57 (1) (b) of the Municipal Systems Act. The Mayor must subsequently approve the SDBIP no later than 28 days after the approval of the budget in accordance with Section 53(1)(c)(ii) of the MFMA.

Section 1 (1) of the MFMA defines the Service Delivery and Budget Implementation Plan (SDBIP) as:

“a detailed plan approved by the mayor of a municipality in terms of Section 53(l)(c)(ii) for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate-

- (a) projections for each month of-*
 - (i) revenue to be collected, by source;*
 - (ii) operational and capital expenditure, by vote; and*
- (b) service delivery targets and performance indicators for each quarter”.*

The SDBIP provides the vital link between the Mayor, Council (executive) and the Administration, and facilitates the process for holding management accountable for its performance. The SDBIP is a management, implementation and monitoring tool that will assist the Mayor, Councillors, Municipal Manager, Senior Managers and community.

A properly formulated SDBIP will ensure that appropriate information is circulated internally and externally for purposes of monitoring the execution of the budget, performance of senior management and achievement of the strategic objectives set by council.

It enables the Municipal Manager to monitor the performance of Senior Managers, the Mayor to monitor the performance of the Municipal Manager, and for the community to monitor the performance of the Municipality.

The SDBIP should therefore determine (and be consistent with) the performance agreements between the Mayor and the Municipal Manager and the Municipal Manager and Senior Managers determined at the start of every financial year and approved by the Mayor.

The SDBIP has been segmented into five components. These are:

- ❑ Component 1: Monthly projections of revenue to be collected for each source; **Annexure E (DMS 861660)**
- ❑ Component 2: Monthly projections of expenditure (operating and capital) and revenue for each vote; **Annexure F (DMS 861660)**
- ❑ Component 3: Draft annual projections of service delivery targets and performance indicators for each vote; **Annexure G1 - 6 (DMS 861660)**
- ❑ Component 4: Ward information for Capital expenditure; **Annexure H (DMS 861660)** and;
- ❑ Component 5: Detailed capital works plan broken down by ward over three years. **Annexure I (DMS 861660)**

It is vitally important for Council to note that these components of the SDBIP are primary indicators of the Municipality's performance on the annual budget. In this regard Councillors are encouraged to scrutinise the various components and pose questions where it is deemed necessary. This form of in-year monitoring should be able to uncover major problems and is aimed at ensuring that the Mayor and Municipal Manager are taking corrective steps when any unanticipated problems arise. The SDBIP thus serves a critical role to focus both the administration and Council on outputs by providing clarity of service delivery expectations, expenditure and revenue requirements, service delivery targets and performance indicators.

9. OVERVIEW OF BUDGET- RELATED POLICIES

9.1 Indigent Support

The key elements within Council's Indigent Policy are summarised as follows:

Universal approach:

- ❖ Rates will be determined as a factor of the market value of a property. In terms of the Property Rates Act, the first R15 000 of the valuation of residential property is exempt from rates.
- ❖ An additional amount of R60 000 is also exempt from rates, which means that the first R75 000 of all developed residential properties with a valuation of R350 000 or lower are exempt from paying rates.
- ❖ Other indigent customers not supported through this approach are accommodated within the targeted approach.

Targeted approach:

- ❖ Outstanding accounts in respect of debtors, which are found to be indigent, are written off. These debtors are then only entitled to Council's free basic services (6 kl of water and 50 kWh of electricity).
- ❖ Free electricity (50 kWh) allocations in accordance with the Free Basic Electricity Policy.
- ❖ The same base value detailed in the universal approach listed above, will be used to determine rebates in respect of Refuse and Sewerage charges. On this basis, residential property valued at R75 000 or less will be exempted from refuse and sewer charges.
- ❖ Properties valued between R75 001 and R150 000 will receive a rebate of 25% in respect of the sewer and refuse charges.
- ❖ Properties valued at R150 001 and higher will pay the normal tariff.
- ❖ Free water of 200 liters per day (6 kiloliters pm) is given to all households.

9.2 Rates Policy

State the following:

"5. Annual review of rates policy.—

- (1) *A municipal council must annually review, and if necessary, amend its rates policy. Any amendments to a rates policy must accompany the municipality's annual budget when it is tabled in the council in terms of section 16 (2) of the Municipal Finance Management Act.*

- (2) *Section 3 (3) to (6), read with the necessary changes as the context may require, apply to any amendment of a rates policy. Community participation in amendments to a rates policy must be effected through the municipality's annual budget process in terms of sections 22 and 23 of the Municipal Finance Management Act."*

The following changes are proposed for the 2013/2014 financial year.

- In order to ensure that owners pay rates for changes/enhancements to their properties and to assist the Valuer to include a value in a supplementary roll, a definition for "Develop" properties were included in the rates policy and it read as follows-

"Developed" means in the case of properties in process of construction:
The Valuer will determine as developed by using the following guideline -

- *The roof completed, and some windows and doors installed*

Or

- *Any partial occupation on the property*
- The "Specialised Category of Properties" in the policy are deemed inappropriate and vague and the Valuer will include all these properties under this category to a more suitable category. This is purely a cosmetic change and will have no monetary effect on the rates payable.
- Another cosmetic change in the policy is the criteria for the Non Profit Organisations and the Public Benefit Organisations to be addressed separately. This is to distinguish between the different criteria applicable for each and the different rates ratio to be applied to these organisations.

"PUBLIC BENEFIT ORGANISATIONS"

Property Rates will be levied in accordance with the Amendment of the Municipal Property Rates Regulations as published in Government Notice Number R. 363 of 27 March 2009.

Public Benefit Organisations performing a specific public benefit activity and registered in terms of the Income Tax Act, Item 1, 2 and 4 of part 1 of the Ninth Schedule, for tax deduction because of those activities, must provide to the satisfaction of the Chief Financial Officer or his delegate that they comply with the criteria and requirements.

- *The following criteria and requirements will apply:*

Once off -

- *The applicant must be the owner and occupier of the relevant property;*
- *Written once off application must be submitted before 31 May*
- *Tax exemption certificate issued by the South African Revenue Services (SARS) as contemplated in Item 1, 2 and 4 of Part 1 of the Ninth Schedule of the Income Tax Act, 1962 (No 58 of 1962) must be submitted together with the application for PBO;*

Thereafter Annually -

- *Submit an Affidavit stating that property is still being used for Public Benefit Activities*
- *Submission of a tax clearance certificate for PBOs confirming that they are in good standing for the year preceding the year of application.*

- *The use of any land or buildings, or part thereof, shall not be for private use*
- *If any individual, whether as a shareholder in a company or otherwise receiving a pecuniary benefit, the applicant shall not qualify;*
- *If during the current financial year, any such land or building is used for any purpose other than the purpose for which it was so exempted, the Municipality shall impose rates thereon or on such portion so used, at a rate proportionate to the period of such use.*
- *The Municipality retains the right to refuse to exempt properties if the details supplied in the application form are incomplete, incorrect or false.*

NON PROFIT ORGANISATIONS

In terms of Section 15(1) of the MPRA, an exemption may be granted to Non Profit organisations that qualify for exemption as determined hereunder. This extent of the exemption will be determined annually during the budget review process.

Applicants must provide credible proof to the satisfaction of the Chief Financial Officer or his delegate that they comply with the criteria and requirements.

➤ *The following criteria and requirements will apply:*

- *The applicant must be the owner and occupier of the relevant property;*
- *Written applications must be submitted before 31 May for each financial year.*
- *A Tax exemption certificate issued by the South African Revenue Services (SARS) as contemplated in Item 1, 2 and 4 of Part 1 of the Ninth Schedule of the Income Tax Act, 1962 (No 58 of 1962) must be submitted together with the application for relief;*
- *A Certified copy of Registration as a Non-Profit Organization with the Department of Social Welfare must be submitted and applicant must be on the current year NPO Register as at 31 May;*
- *Independent schools must have a uniquely allocated education management information system(emis) number and must for the previous financial year provide proof that it received a subsidy from the relevant provincial department of education(at least the majority, 60% and more, of the sources of funding be from a combination of one or more government grants)*
- *The use of any land or buildings, or part thereof, shall not be for private use*
- *If any individual, whether as a shareholder in a company or otherwise receiving a pecuniary benefit, the applicant shall not qualify*
- *If during the current financial year, any such land or building is used for any purpose other than the purpose for which it was so exempted, the Municipality shall impose rates thereon or on such portion so used, at a rate proportionate to the period of such use.*
- *The Municipality retains the right to refuse to exempt properties if the details supplied in the application form are incomplete, incorrect or false."*

All properties registered in the name of a religious institution are not rateable in terms of section 17, portion 1 (i) of the MPRA, but it is deemed to be rateable for any portion on the property that is used for any purpose other than a place of public worship.

“PLACE OF WORSHIP

A 100% rates exemption will be applied in the following instances:

- *On a property registered in the name of and used primarily for the purpose of congregation **excluding** any structure used for any other purpose than a place of public worship, including one official residence registered in the name of that community which is occupied by an office bearer of that community who officiates services at that place of worship in terms of section 17(1)(i) of the Act.*
- *This also applies to a vacant property registered in the name of and used primarily as a place of worship by a religious community.*

A copy of the draft policy, is included in DMS 832897 Annexure D.

9.3 Credit Control Policy

An approved credit control policy is in operation within the City of uMhlathuze. The policy and the actions taken in terms of the policy are producing positive results despite the current harsh economic climate.

9.4 Uniform Tariff Policy

No amendments are proposed to the policy, as all provisions therein remain applicable and relevant.

The detailed policies are not included in this budget documentation. However, they are available on request by Councillors and made publicly available at all Council Offices within the City of uMhlathuze and on the website www.richemp.org.za.

Below is a schedule of Council's budget related policies

Tariff of Charges below cannot be finalised for the reason already mentioned in this report related to the NERSA electricity tariffs and the finalisation of the Valuation Roll.

Name of Policy	Type	Reference	Date of Council adoption
Tariff of Charges	Draft	Outstanding	In progress To serve at Council with the Adopted 2013/2014 Medium Term Revenue and Expenditure Framework (MTREF) in May 2013.
Investment and Cash Management Policy	Current	RPT 141398 DMS 454662 DMS 458007 Review	Council Resolution 4600 dated 3 July 2007. Council Resolution 6336 dated 3 November 2009.
Supply Chain Management Policy	Current	RPT 137944 RPT 145110 DMS 439330 (review)	Council Resolution 3386 dated 4 October 2005. Council Resolution 4211 (res 3) dated 5 December 2006 Council Resolution 6174 dated 4 August 2009.

Name of Policy	Type	Reference	Date of Council adoption
Credit Management Policy (Credit Control, Debt Collection and Indigent Support)	Current	DMS 438088 DMS 716354	Council Resolution 4650 dated 3 July 2007. Amended in terms of Council Resolution 5968 dated 5 May 2009 Amended in terms of Council Resolution 7970 dated 10 July 2012
Tariff Policy	Current	DMS 418186	Council Resolution 4169 dated 7 November 2006.
Rates Policy	Current Draft	DMS 473856 (2008/2009) DMS 566699 (2009/2010) DMS 637432 (2010/2011) DMS 701131 (2011/2012) DMS 789516 (2012/2013) DMS 832897 (2013/2014)	Council Resolution 4169 dated 29 May 2008. Council Resolution 4914 dated 4 December 2009. Council Resolution 6686 dated 8 June 2010. Council Resolution 7172 dated 1 March 2011. Council Resolution 7938 dated 30 May 2012.. Tabled Budget in progress.
Fraud Prevention Policy	Current	RPT 143608 DMS 497798	Council Resolution 6084 dated 9 June 2009.
Virement Policy (transfers of funds)	Current	RPT 147986 DMS 635065	Council Resolution 6737 dated 6 July 2010. Paragraph 5.7 of policy amended in terms of Council resolution 7524 dated 4 October 2011.
Fixed Asset Management Policy	Current	RPT 145981 DMS 562968	Council Resolution 6048 dated 9 June 2009.

10. **OVERVIEW OF BUDGET ASSUMPTIONS**

Key budget assumptions and guidelines used in developing the multi-year Capital Operating budgets are:

10.1 **Capital Budget**

The Municipality is expected to table a credible and sustainable budget. This multi-year budget should be outputs/outcomes focused and consistent with the form required in terms of the MFMA and supported by the budget and revenue related policies. In this regard, we emphasise the need to ensure that revenue projections are realistic and achievable, allocations from other sources are consistent with the Division of Revenue Act, provincial, tariffs and rates are raised taking into account affordability levels of the community, the backlogs in infrastructure are being addressed, whilst maintaining a balance between new and rehabilitation of assets, sufficient provision is made for maintenance of existing assets, provision for working capital, administrative overheads are minimised and are managed downwards over the next financial year.

Therefore the amended processes for this budget year are as follows:

- A. At a Budget Steering Committee meeting held 13 November 2012, departments were informed that Council could only afford own funding of R 130 million.
- B. Departmental submissions for the 2013/2014 MTREF capital projects amounted to R 595 million (2013/2014), R 466m (2014/2015) and R350 million (2015/2016).
- C. A further request on 9 January 2013 was sent out to the departments on to re-prioritise capital budget to an affordable amount of R130 million EFF and CRR funded capital.
- D. Subsequent to this request, departments amended their figures and the Draft Capital Budget as at 5 March 2013 was R 202 million (own funding).
- E. As the Chief Financial Officer ran out of time and therefore in order to comply with MFMA requirements, Council's IDP priority weighting was applied to allocate capital funding across the various services. Table A below sets out the weighting and the budget allocation and emanates in the Tabled 2013/2014 MTREF Capital Budget as per **Annexure C (DMS 861660)**.

Table A

Service	IDP Rating	2013/2014	2014/2015	2015/2016
		Proposed Budget	Proposed Budget	Proposed Budget
		R' 000	R' 000	R' 000
Water	76	19 962	15 304	13 973
Waste Water Management (Sanitation)	79	20 538	15 746	14 377
Electricity	71	18 576	14 242	13 004
Waste Management	52	13 615	10 438	9 531
Road Transport	59	15 462	11 854	10 823
Public Safety (Fire, Traffic, Disaster Management & Street Lighting projects)	62	16 269	12 473	11 388
Sports, Parks and Recreation	43	11 308	8 669	7 915
Community & Social Services (Halls, libraries, museums, cemeteries and Municipal Buildings)	58	15 231	11 677	10 662
Corporate Services (IT)		7 654	6 635	6 058
ERP System		1 000	15 000	25 000
Corporate Services (Vehicles)		8 654	6 635	6 058
Executive and Council	}	98	75	69
Budget & Treasury Office		789	605	552
Human Resources		142	109	99
Health		68	52	48
Clinic		200	153	140
Corporate services - admin		136	104	95
Planning & Development		298	228	208
TOTALS	500	150 000	130 000	130 000

Table B - Departmental Submissions

DEPARTMENTS	2013/2014 DEPARTMENTAL BUDGET SUBMISSIONS	2014/2015 DEPARTMENTAL BUDGET SUBMISSIONS	2015/2016 DEPARTMENTAL BUDGET SUBMISSIONS
	R ' 000	R ' 000	R ' 000
City Development	2 522	855	255
Community Services and Health - Public Safety	41 360	19 776	25 236
Community Services and Health - Recreation and Environmental Services	47 945	45 959	51 812
Corporate Services - Administration	10 952	5 360	31 536
Corporate Services - Human Resources	35	20	0
Financial Services	4 538	6 101	560
ERP System	1 000	15 000	25 000
Infrastructure and Technical Services - Electrical Supply Services	137 563	36 794	28 174
Infrastructure and Technical Services - Engineering Services	20 877	10 890	8 662
Infrastructure and Technical Services - Transport, Roads and Stormwater	136 112	151 268	80 220
Infrastructure and Technical Services - Water and Sanitation	66 092	54 538	63 091
City Manager	672	31	0
TOTAL (EFF AND CRR FUNDING)	469 668	346 592	314 547
AVAILABLE	150 000	130 000	130 000
ADDITIONAL CAPITAL REQUESTS	319 668	216 592	184 547

The utilisation of the **External Financing Fund** relates to the capitalisation of assets funded directly from external loans. A provision of R100 million has been made on the 2013/2014 Tabled MTREF for the funding of capital projects from external borrowings.

To assist Council in funding future capital projects, a Capital Replacement Reserve (CRR) was created in the Tabled 2011/2012 Medium Term Revenue and Expenditure Framework and

funded from surpluses achieved in the operating budget. This reserve will be funded through cash backed surpluses thus directly through tariffs.

Capital projects budgeted and funded from Grants, Subsidies and Public Contributions may not be commenced with, unless confirmation from the funding source has been received.

All allocations in terms of the Division of Revenue Bill, 2013 have been included in the Tabled 2013/2014 Medium Term Revenue and Expenditure Framework. See detail under Section 11.

10.2 Operating Budget

The following assumptions were used to compile the Operating Budget:

ASSUMPTIONS	2013/2014	2014/2015	2015/2016
National Treasury Guidelines	5,6%	5,4%	5,4%
Municipal escalation - Expenditure Budget	6,0%	6,4%	6,9%
Municipal Revenue - Pricing Risk Strategy	7 - 9.8%	7.4%	7.4%
Interest Rate			
* External loans	11%	11%	11%
Salary increases (as per National Treasury Guidelines)	6,85%	6,4%	6,5%
Average % collection of revenue	98%	98%	98%

10.3 Free basic services and poor house hold support

The following are the amounts projected for Free Basic Services using the Universal Approach:

Services	2013/2014	2014/2015	2015/2016
Water	R14 237 408	R14 954 974	R15 708 705
Households	71 660	75 272	79 066
Refuse	R 1 810 307	R1 901 138	R 1 996 195
Households	5 129	5 209	5 289
Waterborne sewerage	R 2 798 181	R2 938 090	R 3 084 994
Households	5 129	5 209	5 289
Rates	R 3 004604	R3 156 036	R3 315 100
Households	29 769	29 780	29 780

The above figures for refuse, rates and sewer cannot be finalised and will be adjusted once the tariffs are available from NERSA and the Valuation Roll is complete, hence the above is just estimates at this stage.

For the Urban areas, the Universal Tariff Approach addresses both indigent and poor households primarily through value parameters set for the value of properties for the relief of Rates, Sewer and Refuse. Water and Electricity Relief is provided through the inclining block tariff methodology.

For the rural areas, relief for the indigent and poor households is received through:- Free Rates (All land held under the Ingonyama Trust is not rated), free VIPs toilets, free refuse skips and the IBT for water. Electricity is supplied by Eskom.

Free electricity (50 kWh) allocations in accordance with the Free Basic Electricity Policy.

Refuse Tariff

In terms of the current Tariff of Charges (DMS801300) refuse removal for residential properties is charged per bin and the responsibility for payment of refuse removal is for the owner of the property.

Throughout the years it became evident that administering the amount of bins per property is problematic. Owners of residential properties are constantly enquiring about the quantity of bins they are charged for. This lead to various phone calls and unnecessary letters to the municipality to reconcile the actual number of bins at the property to the account rendered.

In order to ensure a high level of billing on accounts in terms of refuse charges, it was decided that it would be far more correct and fair if the charge for refuse removal is based on the property valuation per registered unit.

It is therefore suggested that the property valuations be categorised and different scales be designed and to be used to determine the amount each residential property should pay for refuse removal.

An exercise that was done will ensure that the same revenue for this service will be collected in a financial year. The implementation of this new tariff methodology has been done in a fashion to achieve three objectives-

- 1. To retain the current revenue generated from residential refuse removal service;**
- 2. To reduce unnecessary administration and consumer discontent; and**
- 3. To align the charging of refuse tariffs with the principle of wealth distribution as adopted with the rest of municipal tariff setting.**

The following is an example of the proposed scales:

Property Valuation	2012/2013 Tariff Old Structure	Proposed Tariff based on the current values	Increase in amount payable
O - R75 000	R0.00	R0.00	R0.00
R75 001 - R150 000	R58.57	R65.60	R7.03
R150 000 - R400 000	R78.09	R87.85	R9.76
R400 001 - R600 000	R78.09	R88.24	R10.15
R600 001 - R800 000	R78.09	R88.63	R10.54
R800 001 - R 1 000 000	R78.09	R89.02	R10.93
R1 000 001 - R 1 500 000	R78.09	R89.41	R11.32
R1 500 001 plus	R78.09	R89.80	R11.71

It is Important to note that approximately 33 residential properties in the whole of the Municipality is currently charged for more than one bin. This is obviously not accurate and therefor the proposed change is eminent.

In terms of the Refuse Bylaw (DMS257680), there is only one change needed and that is in Chapter 10 Point 26(3) that read as follows-

“ Notwithstanding the provisions of subsection (1) and (2), the owner of unoccupied premises will be liable for the minimum tariff equal to the cost of 1 x 240L bin prescribed by the council for the particular area.”

To change as follows-

Notwithstanding the provisions of subsection (1) and (2), the owner of unoccupied premises will be liable for the tariff equal to the applicable scale as per the property valuation and as approved in the tariff of charges by Council from time to time.

10.4 Property Rates Act: Exemptions, Rebates and Reductions

Budget 2013/2014 cannot be calculated yet and will be included in the Adopted Budget in May 2013

Sections of MPRA	Expected 2012/2013	Budget 2013/2014
	R	R
Section 15		
Agricultural properties 5% Rebate	0	
Indigent - Universal R60 000 residential properties	5 386 480	
Pensioners Rebate	394 312	
Public Benefit Organisations & Sporting Bodies	46 966	
Sub-total Section 15	5 827 758	
Section 17		
30% Reduction on Valuation - Public Service Infrastructure	11 496	
100% Reduction on Valuation - Places of worship	1 441 026	
Sub-total Section 17	1 452 522	
Section 21 - Phasing-in		
Sub-total Section 21	0	
TOTAL	7 280 280	

Impermissible first R15 000 on Valuation on Residential Properties	3 002 691	
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11. OVERVIEW OF BUDGET FUNDING

11.1 Grants and Subsidies

All allocations in terms of the Division of Revenue Bill, 2013, have been included in the 2013/2014 MTREF.

This includes Council's Equitable Share allocation and other allocations from National, Provincial and District Government.

The Equitable Share is considered an unconditional grant, and municipalities are free to regard it as general revenue. However, municipalities should prioritise their expenditure budget towards poor households and national priorities such as free basic services.

DESCRIPTION OF GRANT	TABLED 2013/2014
	R
Local Government Financial Management Grant	1 550 000
Municipal Systems Improvement Programme Grant	890 000
Project Management Unit Allocation	3 035 600
Equitable Share	190 384 000
Museum Subsidy	143 000
Provincialisation of Libraries	5 846 000
Community Library services grant	720 000
Infrastructure Skills development grant	4 000 000
Expanded public works programme integrated grant	1 000 000
Environmental Health - uThungulu District	4 856 400
Water Services Operating subsidy	7 210 000
Total Operating Grants and Subsidies	219 635 000

The Equitable Share is considered an unconditional grant, and municipalities are free to regard it as general revenue. However, municipalities should prioritise their expenditure budget towards poor households and national priorities such as free basic services.

11.2 Salaries and Allowances

A proposed salary increase of 6,85% in terms of National Treasury MFMA Circular number 67 has been budgeted for the 2013/2014 financial year. The composition of the salary budget was done in accordance with the approved organograms adopted by Council.

Standby: A travelling allowance of R79,00 (2012/2013 - R74,00) and a subsistence allowance of R50,00 (2012/2013 - R47,00) was budgeted for in order to comply with Council's Standby Policy.

These allowances will have to be adjusted on an annual basis in order to comply with Council's Standby Policy. **(Council Resolution 1240 dated 20 August 2002 RPT 132692).**

11.3 General Expenses - Bulk Purchases

National Energy Regulator (NERSA) has approved an increase of 8% for Eskom price of bulk electricity to municipalities from 1 July 2013.

uMhlathuze Water, Council's bulk water supplier has indicated a tariff increase of 9% with effect from 1 July 2013.

11.4 General Expenses - Other:

❖ **Subsistence Allowances**

In terms of RPT 150906, Council will be approving an amended policy for the Payment of Subsistence and travelling allowances for employees and Councillors (DMS 751040).

This policy states that the allowances shall increase on 1 July of each year with the average CPI.

The tariffs have been increased by 5,5% as recommended by National Treasury in their 2013/2014 MFMA budget circular no 66.

	2012/2013	Proposed Tariffs - 2013/2014
	R	R
Daily allowance	105	111
Overnight allowance	142	150
Own accommodation	199	210

The policy further sets out accommodation rates which are applicable to the 2012/2013 financial year and are reviewed annually during the consideration of the annual budget.

	2012/2013	Proposed Tariffs - 2013/2014
	R	R
All employees	900	950
All councillors and Section 56 employees	1 500	1 583
Municipal Manager, Mayor / Deputy Mayor , Speaker and Municipal Chief Whip	2 500	2 638

❖ **Allowances to Councillors**

Councillors' allowances have been budgeted on a Grade 5 municipality in anticipation of the 2013/2014 Government Gazette on councillors' remuneration. The budgeted amount includes 60 Councillors of which 11 are full-time. A provision of 6,5% was made in the budget for increases in allowances. Separate disclosure in terms of Section 17(3) (k) of the Municipal Finance Management Act, 2003 is required.

The salary and allowances of a member of a municipal council is determined by a Government Gazette issued annually by the Minister of Co-operative Governance and Traditional Affairs. This gazette determines the upper limits of salaries, allowances and benefits of Municipal councillors.

A municipality's grade is calculated based on the allocation of points for total municipal income and the allocation of points for total population.

The calculation of the Councillors' remuneration for 2013/2014 will be determined using the same above once the Minister of Co-operative Governance and Traditional Affairs issued the Gazette for 2013/2014. The calculation will be based on the 2012/2013 Audited AFS.

❖ **Ward Committees**

In terms of Council Resolution 8413 dated 26 February 2013, the remuneration of Ward Committee members be increased to R750,00 per month per member and will be implemented with effect from 1 January 2013 and to R 1 000 per month per member for the 2013/2014 financial year.

❖ **In Service trainees**

In view of the budget constraints no provision has been made for the payment of monthly travel allowance of in-service trainees in terms of RPT 145664 - Council Resolution 6579 dated 2 March 2010. Departments will be required to identify savings elsewhere on their operating budget and transfer were applicable.

❖ **Membership fees - SALGA**

Council received correspondence (**DMS 798332**) from SALGA dated 5 April 2012 **received by Council on 5 May 2012** in which Council was informed that the membership levy payable to SALGA on annual basis would be increased from 0 5% of the municipal annual salary budget paid in the 2011/2012 financial year to 0 8% of the municipal annual salary budget to be paid by the 1 July 2013.

11.5 Capital funding

The interest rate used for compiling the estimates as follows in respect of loans:

	2013/2014
External Financing Fund	11 0%

The rationale behind the **External Financing Fund (EFF)** is as follows:

Council has been be more aggressive in order to address its developmental backlogs in line with Government's extensive works programme and higher levels of Government funding with regards to borrowings over the previous financial years.

Provision has been made on the 2013/2014 Tabled MTREF for a R 100million for the funding of capital projects from external borrowings.

Council has to ensure that to fund future capital projects its cash backed reserves are increased. Furthermore the capital projects as budgeted on **Annexure C** and the draft SDBIP will only commence once funding has been sourced from the relevant financial institution.

All allocations in terms of the Division of Revenue Bill 2013 have been included in the Tabled 2013/2014 Capital Budget.

Capital expenditure funded from **Grants, Subsidies and Public Contributions** may not be commenced with unless confirmation from the funding source has been received.

A breakdown of the Capital grants are as follows:

DESCRIPTION OF GRANT	TABLED 2013/2014
	R
Integrated National electrification Programme Grant (National)	3 000 000
Municipal Infrastructure Grant (National)	83 697 400
Expansion and upgrade of beaches - Alkandstrand (COGTA)	7 000 000
New and upgrading of Informal Traders (COGTA)	3 000 000
Total Capital Grants	96 697 400

12. EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES

Refer to **Annexures B33 - B35 (DMS 855932)** (Tables SA18 - SA20)

13. ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

Refer to **Annexure B36 (DMS 855932)** (Tables SA21)

14. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Refer to **Annexures B37 - B39 (DMS 855932)** (Tables SA22 - SA24)

15. MONTHLY TARGETS FOR REVENUE EXPENDITURE AND CASH FLOW

Refer to **Annexures B40 - B45 (DMS 855932)** (Tables SA25 - SA30)

16. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

Refer to **Annexures B47 (DMS 855932)** (Tables SA33)

17. CAPITAL EXPENDITURE DETAILS

Refer to the following Annexures:

- ❑ Annexure C (DMS 861660)
- ❑ Annexure B7 (DMS 855932) (Table A5)
- ❑ Annexure B8 (DMS 855932) (Table A5A)
- ❑ Annexure B12 (DMS 855932) (Table A9)
- ❑ Annexure B48 (DMS 855932) (Table SA34a)
- ❑ Annexure B49 (DMS 855932) (Table SA34b)
- ❑ Annexure B50 (DMS 855932) (Table SA34c)
- ❑ Annexure B51 (DMS 855932) (Table SA34d)
- ❑ Annexure B52 (DMS 855932) (Table SA35)
- ❑ Annexure B53 (DMS 855932) (Table SA36)
- ❑ Annexure B54 (DMS 855932) (Table SA37)

18. **LEGISLATION COMPLIANCE STATUS**

□ **MFMA**

All relevant sections of the MFMA have been complied with except for the implementation of International Accounting Standards.

The MFMA implementation is monitored through regular reporting including:

- Quarterly reviews of MFMA implementation plans and the 12 urgent implementation priorities checklist.
- Monthly returns to National Treasury and monthly reports to the Mayor and Council as required by section 71.
- Publication of information on the municipality's website (www.richemp.org.za).
- Mid-year budget and performance assessment as required by section 72.

□ **Municipal Budget and Reporting Regulations**

Section 17 (1) of the MFMA refers to a prescribed format according to which the annual budget is required to be prepared. National Treasury has issued MFMA Circular Number 54 (**DMS 693476**) in which this prescribed format has been set out. Furthermore National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009. These regulations set out the manner in which Municipalities are required to prepare their Budgets and Medium Term Revenue and Expenditure Framework. Council has compiled this report in terms of these regulations. Any shortcomings and outstanding information will be addressed in the final approved budget report.

□ **Other legislation**

The other important pieces of legislation when considering the budget processes are:

- **The Property Rates Act**

Council successfully implemented the Property Rates Act on 1 July 2008. For the first Valuation Roll the property valuations were valued as at 1 July 2007.

Council is required by the Act to revalue all properties again and the tender for the second Valuation Roll was awarded. The new valuation date is 1 July 2012.

- **The Division of Revenue Act 2013**

This Act provides the three-year allocations from National Government to Local Government. It sets out all the reporting requirements and conditions relating to the grants. Alongside this Provincial Departments allocate funding to Local Government by means of a Provincial Gazette.

These allocations are used when preparing the MTREF in order to comply with section 18 of the MFMA (relating to reasonably anticipated revenues to be collected). Additional allocations - both nationally and provincially - are sometimes made to municipalities. However these are not included in the original budget as the allocations are not certain. When these allocations are confirmed they will be included in an Adjustments Budget in accordance with section 28 of the MFMA.

- The Municipal Systems Act (Act No 32 of 2000) together with the Municipal Systems Amendment Act (Act No. 44 of 2003).

These Acts form the basis of the links between the budget and the integrated development Plan (IDP). In particular the aspects that have been considered in preparing the budget are:

- ❖ Community participation (Chapters 4 and 5);
- ❖ Performance management (Chapter 6) providing also the basis for measurable performance objectives in the Service Delivery and Budget Implementation Plan (SDBIP); and Tariff policy (Chapter 8).

19. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Refer to **Annexure J (DMS 862088)**.

FINANCIAL IMPLICATIONS

This is dealt with in detail throughout the report.

LEGAL IMPLICATIONS

This is dealt throughout the report with references to various Acts and regulations.

COMMENTS OF THE CHIEF FINANCIAL OFFICER

For this report the Chief Financial Officer wishes to express his gratitude and appreciation to all his colleagues in the Finance Department in particular those who are instrumental in managing and compiling this report.

This direction together with the budget guidelines supplied by National Treasury and the downturn in the economic climate have brought the Municipality to a point of having an overall approach that is a little less conservative than the past two years and a little more optimistic for the outer years.

Together with the points highlighted in the Executive Summary, the following are a few significant points of interest and concern in this budget which Council needs to be aware of:

- ❖ Rates & General Services dependence on Electricity Services. The minimal tariff increase in Rates has over the years resulted in increasing deficit on "Rates and General Services" (Those services that are primarily dependent on Rates income). The Budgeted Deficit of R185 million for Rates and General Services is of serious concern with the bulk of the surplus offsetting this deficit coming from the Electricity Services which is going to post a R190 million surplus.

This dependence on Electricity Services by Rates and General Services needs to be reversed. Interventions to reverse this dependence can primarily be achieved by:

- Increasing the rates base with increases in the rates randage above that of CPI for a five year period to a point where services funded by Rates will be more cost reflective i.e. to bring Rates and General Services to a point where such services are less dependent on the Trading Services;
- Reducing all non-priority budgets which are not basic service delivery orientated;

- Increasing various commercial tariffs for Rates & general Services to be more cost reflective of the specific service rendered but simultaneously keeping the social tariffs sub-economic;
 - Increasing the commercial and industrial lease of properties income by increasing the number of properties Council has in its Investment Register as advised by National Treasury and accounted for in terms of GRAP 16;
 - Ensuring that the Council does not directly and indirectly, wittingly and unwittingly take on unfunded mandates from other Government Departments;
 - Ensuring that existing resources within the different departments that fall under Rates & General are used efficiently and effectively;
 - Ensuring that new posts on the five year Organogram only be filled when there is a corresponding increase in the revenue base to finance such posts in the service centres where such posts are required. This reality is particularly pertinent in the cost centres financed by Rates;
- ❖ This budget caters for a full basket of free basic municipal to the indigent and poor consumers;
 - ❖ There are significant provisions on the operating budget for Repairs and Maintenance of Council's assets;
 - ❖ The absence of a fully-fledged assets management plan is a serious concern in an environment where there are an unlimited number of needs but only a limited amount of resources. Therefore such resources have to be used to their optimum social and economic capacity;
 - ❖ The absence of a financial implementation plan approved by Council for the new organogram is placing tremendous strain on the budgeting process. It is recommended that urgent attention be given to ensure the correctly prioritized posts taking basic service delivery as a priority; and
 - ❖ There is evidence that the Municipality's cash flow is improving slightly with the provision of R50 million on the 2013/2014 budget for capital funded from Councils own cash reserves and Working Capital currently sitting at almost 1x average monthly creditors of R150 million.

The recommendations are therefore supported.

RECOMMENDED THAT:

1. the Adopted Multi-year Medium Term Revenue and Expenditure Framework (MTREF) of the municipality for the Financial Year 2013/2014 and indicative for the projected outer years 2014/2015 and 2015/2016 be approved as set out in Budget tables A1 - A10 (**Annexure B1 - B13**) (**DMS 855932**);
2. the Adopted 2012/2017 Integrated Development Plan (IDP) be incorporated into the Tabled 2013/2014 Multi-year Medium Term Revenue and Expenditure Framework (MTREF);

3. it be noted that only upon the finalisation of the Valuation Roll and the receipt of the NERSA electricity tariff parameters can the exact Rates Randage and Tariff of Charges be approved.
4. the Tabled 2013/2014 Medium Term Revenue and Expenditure Framework aligned with the IDP's Developmental Objectives and Goals for the City of uMhlathuze be approved as follows:

	TABLED 2013/2014 MTREF	TABLED 2014/2015 MTREF	TABLED 2015/2016 MTREF
	R'000	R'000	R'000
Total Operating Revenue	2 047 563	2 206 616	2 430 981
Total Operating Expenditure	1 941 725	2 111 222	2 319 575
Surplus/ (Deficit)	105 838	95 394	111 406
Less: Capital Grants recognised In Revenue	(96 697)	(87 713)	(103 711)
Operating Surplus/ (Deficit)	9 141	7 681	7 695
Capital Budget	256 815	217 713	233 711

5. only upon the 70% spending of current unspent loans (capital budget) as at the 30 June 2013, will the Chief Financial Officer be able to take up the 2013/14 capital loan of R100 million;
6. on application by the relevant rate payers the following rebates be applied subject to the provisions contained in the Rates Policy:
 - 6.1 Agricultural properties - 5%
 - 6.2 Non Profit Organisations - 100%
7. The following in terms of the 2013/2014 Property Rates Policy be approved-
 - a) A new definition for "Develop" properties;
 - b) The "Specialised" Category of Properties be removed and affected properties be re-categorised by the Valuer in the Second Valuation Roll;
 - c) That Non Profit Organisations and Public Benefit Organisations are addressed separately in the rates policy due to their different qualifying criteria and for the Municipality to apply different property rates ratios for these organisations; and
 - d) Places of Worship will be rated on any structure that is used for any other use than for religious purposes
8. it be noted that electricity tariffs on average include a Local Government Levy of 10%, revenue of which is used to finance the Rates and General services;

9. the profit on sale of all erven be allocated 100% to the Rates and General Capital Replacement Reserve account as from 1 July 2013;
10. that prior to the commencement of the 2013/2014 Budget Process a financial implementation plan be submitted by all Departments to Council for the new organogram approved by Council resolution 7383 on the 2 August 2011 and that new positions only be filled in accordance with such financial plan;
11. the Rates Policy as contained in **Annexure D (DMS 832897)** be approved;
12. The Refuse Bylaw contained in DMS 257680, Chapter 10, Point 26 (3) be changed to read as follows: - ***“Notwithstanding the provisions of subsection (1) and (2), the owner of unoccupied premises will be liable for the tariff equal to the applicable scale as per the property valuation and as approved in the tariff of charges by Council from time to time.”***;
13. that the Investment and Cash Management Policy adopted by Council in terms of Council resolution number 6336 dated 3 November 2009 be reviewed during the course of the financial year to incorporate statutory reserve requirements;
14. in terms of various policies the following increases in allowances are submitted to Council for approval:

	Adjusted 2012/2013 Tariffs	Proposed Tariffs - 2013/2014
	R	R
Standby - Travel allowance	74	79
Standby - Subsistence allowance	47	50
Subsistence allowances		
• Daily allowance	105	111
• Overnight allowance	142	150
• Own accommodation	199	210
Accommodation		
• All employees	900	950
• All councillors and Section 56 employees	1 500	1 583
• Municipal Manager, Mayor/ Deputy Mayor, Speaker and Municipal Chief Whip	2 500	2 638
Ward committee members	750	1 000

and;

15. in terms of various unspent conditional grants received from the National Fiscus Council hereby requests via letters to the transferring officers that a roll-over of funds received in 2010/2011 and 2011/2012 and 2012/2013 financial years to the next financial year, namely 2013/2014 financial year.